

STATEMENT REGARDING

AGRICULTURAL TRADE ISSUES

HEARING OF THE COMMITTEE ON AGRICULTURE

**THE HONORABLE ROBERT W. GOODLATTE
CHAIRMAN**

PRESENTED BY

**GREG LEE
CHIEF ADMINISTRATIVE OFFICER &
INTERNATIONAL PRESIDENT**

TYSON FOODS

WEDNESDAY, MAY 19, 2004



Good morning and thank you, Chairman Goodlatte, Congressman Stenholm, and Committee Members for the opportunity to present the National Chicken Council's views and recommendations regarding certain very important and timely international agricultural trade issues, especially those relating to poultry. U.S. chicken companies are confronted by many trade issues that restrict and even halt U.S. exports. This hearing can serve as an important opportunity to more fully and successfully address these many issues. Please be assured U.S. poultry companies appreciate the Chairman's invitation to be part of this very vital discussion. It is our hope that our efforts can contribute to and be part of a satisfactory resolution of these trade issues.

I am Greg Lee, Chief Administrative Officer and International President of Tyson Foods and Chairman of the National Chicken Council. A vigorous and robust export market is essential to the success of my company and the many other member companies of the National Chicken Council. The National Chicken Council (NCC) represents companies that produce and process about 95 percent of the young meat chickens (broilers) in the United States. NCC works very actively with Congress and the Administration to help promote an expanding export market for U.S. poultry. This Committee's leadership on international trade issues is recognized and most appreciated.

Importance of Exports

Having a vigorous, robust and expanding export market for chicken is critically important to the 45 vertically-integrated companies that comprised the federally-inspected chicken industry. Whether one of these companies exports directly or relies entirely on the domestic market, the prices received and the economic well-being is heavily dependent on the health of the export market. This year (2004) more than 33.7 billion pounds (ready-to-cook weight basis) of chicken will be marketed, a record amount. About one-half or almost 17 billion pounds of these marketings will be the front half of the broiler, basically breast meat, and one-half or another 17 billion pounds will be the back half of the bird, basically, leg quarters. American consumers through their purchasing decisions continue to increasingly express an overwhelming preference for breast meat, which is usually sold as boneless, skinless breast meat or products directly made from

boneless/skinless meat. Due to the imbalance of consumer demand for the front half and the back half of the chicken, it is critical that export markets be found for the one-half of the chicken less preferred by the American consumer. Fortunately, except for North America and, perhaps, certain parts of the Western Europe, consumers around the world have a decided preference for leg meat relative to breast meat. While this situation offers great competitive opportunities for U.S. chicken exporters, it also, at the same time, is a source of arguments by other countries that U.S. chicken exports are receiving subsidies that allow leg quarters to be priced so competitively. Although it is true that the price of U.S. chicken leg quarters is quite attractive to oversea buyers, the charge of government subsidies is baseless and totally without merit. The U.S. government does not provide any export subsidies for U.S. poultry.

Last year (2003) exports accounted for over 15 percent of total U.S. broiler marketings. In terms of share of total marketings and quantity exported, the highest level was in 2001 when 5.6 billion pounds of chicken were exported. This quantity represents 18 percent of total marketings. This year (2004) exports will slip for the first time in 20 years. In 2004, the quantity exported is likely to be 4.6 billion accounting for less than 14 percent of total marketings. In a normal market situation the export market must take the leg quarters from one in three chickens for the overall market to be in good balance and provide the necessary underlying support for a healthy overall market. When adequate foreign market access for U.S. chicken leg quarters is not possible, the supplies of leg quarters usually back-up on the domestic U.S. market and not only negatively impact overall chicken prices but also the imbalance in supply causes problems that spill-over and depresses producer prices for competing products, such as hogs and cattle.

As I noted, in normal times the negative impact of significantly reduced exports coupled with near-record high feed costs that may reach record levels before the next crops of corn and soybeans are harvested would most certainly cause a very difficult financial situation for the U.S. chicken industry. Fortunately, and I am not sure of all the reasons, the current market situation is not normal. However, the laws of economics have not

been repealed and at some point in the future, market conditions will return to a more normal situation. At that time, the loss of exports will compound the financial problems of U.S. chicken companies. Thus, I hope that Congress and the Administration can now take appropriate and needed actions to lessen or even prevent a continued erosion of U.S. chicken exports.

WTO Doha Round Negotiations

It is good to see that negotiations involving agriculture in the World Trade Organization's Doha Round have begun again. Much progress is needed on many issues, but it was reassuring to see the European Union agreeing to at least make the first steps toward eliminating export subsidies. While having foreign competitors eliminate export subsidies and removing unfair domestic supports for their poultry producers will help level the competitive playing field, these actions are not the most important from a U.S. poultry perspective. More important to U.S. poultry exporters is greater market access. Actually, the market access provisions needed are not the ones primarily being negotiated in the current round of multilateral talks. Having no import quota restrictions nor high import duties are important, basic requirements. However, as tariff and quota protections have been reduced, the non-tariff protective measures have increased measurably. More and more countries are using poultry health issues, such as avian influenza and veterinary requirements, such as bogus testing for pathogens, to restrict or ban U.S. poultry from their markets. This issue of non-tariff trade barriers is where U.S. poultry exporters need the most help by Congress and the Administration.

Bilateral Free Trade Agreements

When the Administration determined it was going to be difficult to move forward in a timely manner on agricultural issues in the Doha Round, we agreed with the position that U.S. negotiations should step-up their efforts on bilateral free trade agreements. For the most part, the bilateral free trade agreements that have been concluded do offer the possibility of increasing U.S. trade in poultry. The U.S./Australian FTA is a notable exception, however. While import tariffs and import quotas may be reduced or even eliminated in the bilateral FTAs, the method of addressing and resolving sanitary and

veterinary provisions in the recent bilateral agreements will require close monitoring and attention. At the same time, it is fair to note and give credit to U.S. negotiations and the other countries in the recent bilateral agreements regarding the sanitary and veterinary issues. For the most part, these issues have been fairly well addressed. The U.S./Australian Free Trade Agreement, however, in this regard for U.S. poultry stands out as a clear exception to this conclusion.

Russia

Russia is the United States' largest export market for chicken by a significant measure. This market in 2003 accounted for 30 percent of total U.S. chicken exports, and in 2002 the share was 32 percent and 2001 Russia's share was 42 percent. On May 1, 2003 Russia imposed an import quota for poultry. For 2004 Russia declared the total quota would be 1.05 million metric tons with 73.5 percent or 771,900 metric tons assigned to the United States. Although we were not pleased to see a ceiling placed on the quantity of chicken we could export to Russia we hoped that this restriction on imports would lessen Russia's activities that disrupt U.S. poultry exports. We were wrong. Before the Russian veterinary team came to the United States last year to inspect U.S. poultry plants and related facilities, the Russian Minister of Agriculture publicly predicted that only 70 percent of the U.S. plants would pass Russian inspections. Not surprisingly, when the inspections were complete, about 70 percent were approved. Their findings for delisting plants in our opinion were very arbitrary and without merit. Since then Russia's Ministry of Agriculture has claimed to have tested U.S. poultry and has found product from 11 different U.S. plants to be positive for certain pathogens. Russia has delisted these plants without an opportunity for USDA or the U.S. poultry companies to respond to the findings. U.S. Secretary of Agriculture Veneman has made repeated requests to her counterpart in Russia to have a Russian veterinary team return to the United States to reinspect delisted plants. Much delay has occurred in trying to get a response to the Secretary's requests. It is my understanding that a telephone discussion of these issues between Secretary Veneman and the Russian Minister of Agriculture has been scheduled for today. I am hopeful this discussion will lead toward a resolution of the plant inspection issue. Because the list of approved plants is

relatively short, and becoming shorter with the periodic delistings by Russia, the import quota for Russia is not being filled. Failure to fill the quota jeopardizes the United States keeping its 73.5 percent share of the total quota. We find ourselves in a very difficult situation and Russia Ministry of Agriculture seems unwilling to help resolve the problem.

China/Hong Kong

When the low-pathogenic avian influenza outbreak first occurred in Delaware earlier this year, more than 60 countries banned U.S. poultry, usually from the entire United States. Some countries did just restrict poultry from Delaware and later the other states that experienced avian influenza (AI). Unfortunately, most countries over-reacted to the AI situation.

China/Hong Kong represent the second largest export market for U.S. chicken. Earlier this month Hong Kong finally lifted its import ban on U.S. poultry, except from the states of Delaware, Maryland, and Texas. The removal of the ban is appreciated but since 85 percent or more of the chickens exported to Hong Kong is transshipped to China, the relief has not been complete. USDA officials and scientists are continuing to discuss with the Chinese government the reopening of the market to U.S. poultry. However, it is obvious that China has an international trade agenda beyond the issue of whether or not U.S. poultry poses a risk to their poultry flocks. We are appreciative of the work USDA is doing to reopen the Chinese market and are hopeful that the efforts will soon prove fruitful. Once China again permits U.S. poultry, we believe Japan, Korea, and a number of other countries will begin to unwind their import bans on U.S. poultry.

The main point of discussing this situation is to better explain that despite trade agreements, whether bilateral or multilateral through the WTO, countries will continue to use veterinary and sanitary issues to restrict and halt trade. Countries need to recognize agreed-upon standards for poultry diseases, such as avian influenza, and then properly follow the international standards and procedures. The Organization for International Epizootics (OIE) is the focus of trying to make progress on these issues.

We are hoping OIE can become a more important organization for managing these issues. However, there appears to be a very long timetable for achieving the necessary progress.

Recommendations

The National Chicken Council recognizes that agriculture trade negotiations are difficult, complex, and apparently never-ending. We also recognize we do not have all the answers to successfully resolve the many tough problems. Nonetheless, we respectively suggest that the following recommendations be considered by this Committee. These are:

- Work diligently toward a successful conclusion to the current round of WTO negotiations, especially better market access issues;
- Continue to pursue the successful conclusions of bilateral free trade agreements that include beneficial provisions for poultry trade;
- Continue to work aggressively to have full and complete compliance by signatories to trade agreements already concluded and encourage the U.S. Trade Representatives Office to respond appropriately and timely when these provisions are blatantly violated;
- Have trading partners agree to pre-determined procedures for an expedited resolution of sanitary and veterinary issues, whether poultry diseases or findings of food safety issues;
- Postpone negotiations for Russia's accession to the WTO until Russia fully demonstrates it will abide by the agreements and understandings involving poultry;
- Encourage USDA to organize a more permanent, dedicated, full-time task force of Department technical and scientific experts to be available to be dispatched to trouble spot countries that are using non-science based sanitary and veterinary measures that result in disruptions or halt U.S. poultry and red meat exports;
- Provide more adequate funding and resources for USDA/Foreign Agricultural Service's Market Access Program and Foreign Market Development program; and

- Provide the U.S. Trade Representatives Office with a more adequate budget so that more sufficient resource can be dedicated to resolving existing agricultural trade issues and lessening the possibilities of new issues occurring.

Conclusion

In conclusion, I again thank the Committee for the opportunity to present the National Chicken Council's views and recommendations regarding agriculture trade negotiations and issues impacting our business. It is my hope and the hope of my fellow poultry producers that U.S. chicken exports can reverse this short downward turn and increase in the years ahead. By doing so farmers who provide chickens and farmers who provide feedgrains and oilseeds to feed the chickens will have greater opportunities to benefit from the economic activity generated by the dynamic U.S. chicken industry. The National Chicken Council looks forward to working with the Committee as this goal continues to be pursued.

Thank you.